

**CORPORATE SUSTAINABLE DEVELOPMENT THROUGH AN INTEGRATED  
MANAGEMENT SYSTEM APPROACH A CASE STUDY OF CORPORATE  
SUSTAINABILITY PRACTICE AT PT X INDONESIA**

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*Abstract—a change in resource availability has been a concern of various parties. With the rapid economic growth in many parts of the world, global GDP is expected to increase from U.S. \$ 70 trillion in 2008 to U.S. \$ 135 trillion (increase 95%) in 2030. At the same time, the world population will grow from 6.7 billion people to 8.2 billion people. This phenomenon has prompted the more responsible and sustainable way to resource management, including resource management best-practice. Recent research from McKinsey suggests that the corporate sustainability practice has increased the ability of businesses to compete in the market. Recently, PT. X Indonesia has planned to implement corporate sustainable initiatives are more integrated, systematic, and continuous-based. Considering that corporate sustainability is a wide scope corporate initiative which involved many stakeholders both internal and external, PT. X Indonesia is very concerned about how to approach sustainability most effectively to gain sustainability competitive advantage through leverage their capabilities and will reduce future risk to sustainable growth of company's business. The author has proposed the use of sustainability integration into business management systems through PDCA cycle of continuous improvement based on integrated management system approach. This solution would be basis to further develop PT. X Indonesia sustainability management practice in the areas of control, integration, and performance management. Implementation of final project is expected to optimize corporate sustainability initiatives to gain competitive advantage by ensuring their alignment to the achievement of business objectives and provide clarity and flexibility in managerial, measurement and assessment. The author has recommended implementation plan: establish objectives, prepare management programs, and monitoring progress in the last part of this document.*

*Keyword: Corporate Sustainability, Integrated Management Systems, Business Management System, Organizational Capabilities, Stakeholders, Competitive Advantage.*

## **1. Introduction**

PT. X Indonesia's vision is to be one of the largest, best-managed, most profitable and sustainable pulp and paper companies in the world, the preferred supplier to customers, and the employer of choice to our people. This is based on ability to create long-term value by transforming chosen natural resources into products that improve the quality of life for people in their markets. To realize it's vision, PT. X Indonesia must bring diligent and innovative solutions to the challenging and complex environment in which its operation exist. To face their challenging business environment, PT. X Indonesia believes that sustainability has to be the foundation for company's business, not only in the interests of risk management, but also to ensure a balance of commercial, social and environmental needs in the management of resources. Recently, PT. X Indonesia are working on how company strengthen sustainability issues in their strategy and vision and then how they integrate it into how company talk about value and how company really engage with the functional business units to make sustainability commitment being relevant.

Now, PT. X Indonesia focus on development of abilities to ensure that sustainability is fully integrated with their business. They are guided by the Triple Bottom Line (TBL) principle of responsibility to People, Planet and Profit. The company has been looking inwardly to assess their organizational capabilities and strategies as continue to integrate sustainability into their business management system. They have been working to develop sustainability system which is critical for their continued business success.

## 2. Business Issue Exploration

PT. X Indonesia as one of leading producer of pulp and paper and one the largest producers of Bleached Hardwood Kraft (BHK) pulp in the world has to keep innovative in creating competitive advantage. It should be done to maintain its position as one of market leader, considering that pulp and paper industry has commodities product.

### A. Conceptual Framework

From the interviews, the author learned that the pulp and paper industry has complex stakeholder requirements. It means, stakeholders not only concern to product quality, but also the environment, human rights in terms of occupational health and safety, even the source of wood into requirements for key stakeholders in the pulp and paper business. According to Asif et al. (2010), any process to corporate sustainability must, therefore, have an explicit focus on stakeholder requirements. Corporate sustainability heavily emphasizes the need to meet key stakeholder requirements in a systematic manner. This has been recognized by the management of PT. X Indonesia by implementing a variety of management system to meet the company's key stakeholder requirements systematically.

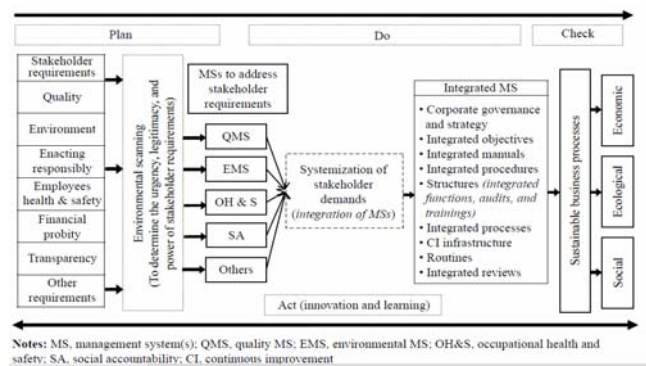


Figure 1. Corporate Sustainability Framework

From the framework as shown above, at the planning stage, the organization should identify the stakeholder requirements and determine the power of the stakeholder requirements as well. Then organizations should address such requirement systematically through leveraging management system in organization. This management system will provide a guide to the behavior of the organization as a whole. From various management system that has been implemented, organization need to integrate its management system in order to avoid competing priorities, confusion, and mutual incompatibilities (McDonald et al., 2003; Salomone, 2008; Zeng et al., 2007).

Then, by doing systemization of stakeholder demands through integrated management system, the organization will be able to provide a necessary infrastructure and governance for sustainable business process, continuous improvement of process and those could also embed sustainable process in the social, technical, and behavioral side of the enterprise (Asif et al., 2010). At the stage of learning and innovation, it takes an effort to consolidate experiences into organizational sustainability as a process of continuous improvement efforts along the various dimensions of sustainability.

Smith and Lenssen (2009) and Searcy et al. (2006) have suggested that the case for sustainability is strong when it is integrated with mainstream business processes. The integration of business process and corporate sustainability decisions are driven by stakeholder pressure and requirements.

#### *B. Analysis of Business Situation*

The results of interviews with sustainability head on a background of corporate sustainability implementation in PT. X Indonesia and based on corporate sustainability framework by Asif et al., (2010), the author conducted an analysis of stakeholder demands and requirements in the pulp and paper industry will be discussed as follow:

##### **1. Quality Requirement**

The Management of PT. X Indonesia believes that quality and customer service are the foundation of company business. Company business success depends on knowing and meeting company customers' requirements and expectations, whilst, fulfilling the requirements and expectations of company stakeholders. PT. X Indonesia believes that employees must understand the importance of meeting customer requirements, are responsible to the quality of work they carry out, and are therefore, empowered with the organizational freedom and authority to ensure that quality requirements are met.

##### **2. Environment Requirement**

The management of PT. X Indonesia is committed to protecting the environment in which company's live and work and accepts the responsibility for managing company forest concessions and production facilities in a manner that will sustain company business and limit business impact on the environment. PT. X Indonesia is also committed to the continuous improvement of company environmental performance and the prevention of pollution. The management of PT. X Indonesia understands that responsible environmental and social management is essential to the long term viability of pulp and paper business.

##### **3. Occupational Health and Safety Requirement**

The Management of PT. X Indonesia believes that responsible management of environmental and occupational health and safety risk inherent in the pulp and paper industry contributes positively to company's business and benefits company's employees, customers and stakeholders alike. Company also believes that a sound environmental and safety policy to guide responsible management will minimize health and safety risk and environmental impacts whilst maximizing socioeconomic gains.

##### **4. Enacting Responsibly and Transparency**

PT. X Indonesia has an ongoing interest in understanding and learning about the interests and concerns of company stakeholders. The principal observers and critics of company environmental actions are local, national and international environmental NGOs. While company has had a number of meetings with different groups, many of which were confirmed through subsequent correspondence, these discussions were not always officially recorded.

PT. X Indonesia strives to achieve its vision and responsive on compliance with the four concerns include following:

- Produce High Quality Product
- Prevent Negative Impact on its operational environment
- Prevent incident and illness due to working on its employees
- Support the preservation of natural resources.

To address four concerns above, PT. X Indonesia has been being implementing the internationally recognized management system:

- Quality Management System (QMS) referring to ISO 9001 Standard since January 2000.
- Environmental Management System (EMS) referring to ISO 14001 Standard since November 2002.
- Occupational Health & Safety Management System (OHSMS) referring to OHSAS 18001 Standard since May 2006.

- Sustainable Forest Management referring to Forest Stewardship Council's (FSC) Standard.

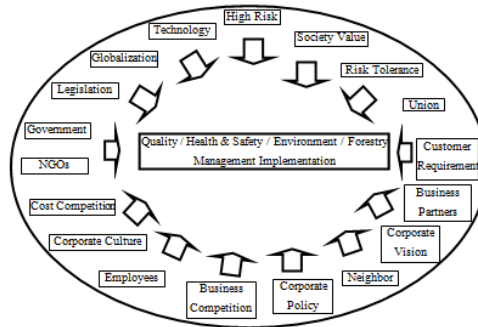


Figure 2. Factors influencing Integrated Management System Implementation

Implementing corporate sustainability in PT. X Indonesia particularly for operational context presents many challenges. These challenges have hampered the company for capturing potential value from sustainability initiative. From author's discussion with company's management and field observation, there are some sustainability challenges that into the root causes of business issues being faced by the PT. X Indonesia as following:

- Business units are not engaged with implementing corporate sustainability initiatives.
- Corporate sustainability initiative is not integrated into existing management system.
- Sustainability department is too low to be influential.
- Lack of resources and capabilities.
- Insufficient data or information to implement initiatives.

### 3. Business Solution

In this part of business solution, the author directly focus on how to develop the ability of the organization to have the ability to continuously scan their environment to respond to stakeholders' requirements through develop integrated management system for corporate sustainability solutions for business development as issues that is being faced by the company.

#### C. General Requirements

Leading and operating a corporation successfully requires managing it in a systematic and visible manner. Success should result from implementing and maintaining a management system that is designed to continually improve the effectiveness and efficiency of the company performance by considering the needs of stakeholders. Managing an organization includes environmental management, quality management, health and safety management, among other management disciplines. Top Management should establish a stakeholder-oriented organization by defining system and processes that can be clearly understood, managed and improved in effectiveness as well as efficiency. They should also ensuring effective and efficient operation and control of processes and the measures and data used to determine satisfactory performance of the organization.

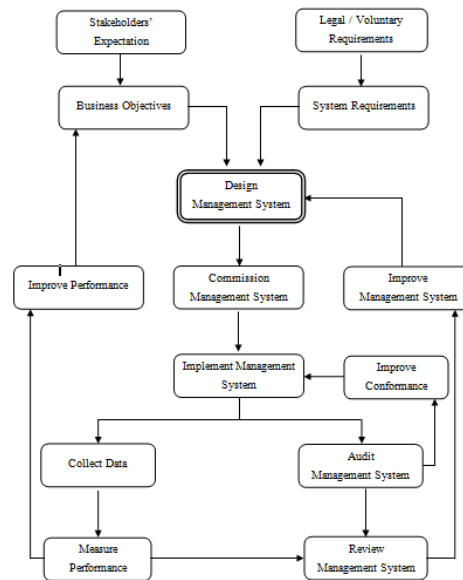


Figure 3. Design Management System Lifecycle

#### D. Integrated Management System Development

The application of quality, environmental, health and safety management (IMS) principles not only provides direct benefits but also makes an important contribution to managing costs and risks. Benefit, cost and risk management consideration are important for the organization, its customers and other interested parties. Generally, the PT. X Indonesia IMS implementation objectives will address two business issues:

1. Improving control by reducing non conformity in all aspects of the business. Objectives for control comprise objectives pertaining to requirements for quality management, health and safety management, environmental management, operational management, and their output.
2. Improving the performance of the business, the personnel, and the products that it produces. Objectives for improvement (continual improvement) through:
  - Providing clear assignment of responsibilities;
  - Providing procedures and process to deal with the control of outputs;
  - Ensuring that activities are conducted in accordance with defined specification;
  - Providing the organization with plans and procedures for the detection, response, and prevention of nonconformity, whether product or process, so that costs are minimized and continuous improvement and stakeholder satisfaction are achieved.

#### E. Business Solution Recommendation

From the analysis of the integrated management system as a solution in dealing with business issues being faced by PT. X Indonesian, in this section the author will develop step that can be taken by the company to be able to make corporate sustainability initiative with the integrated management system approach into company competitive advantage in terms of resources, capabilities, and standardized management system.

##### 1. Leverage PT. X Indonesia Management System Capabilities.

The ISO 9001 and ISO / IEC 17025 International Standard promotes the adoption of a process approach when developing, implementing and improving the effectiveness and efficiency of a quality management system to enhance stakeholder satisfaction by meeting stakeholder requirements. However, these principles are well adapted and necessary for the successful management of environmental and occupational health and safety systems.

The international standards, ISO 14001 and OHSAS 18001, specify a model for an environmental and occupational health and safety management system (E/OHS) which may be applied to any type or size of organization. It is based on an implementation model of PLAN – DO – CHECK – REVIEW/ACT and follows a simple and logical sequence.

## 2. Creating Strategic Awareness

To function effectively, an integrated quality, environmental, and occupational health and safety management system (simply with IMS) requires processes for communicating IMS-related information throughout the organization. The communication process must be two-ways that are communication from executive management regarding the IMS policies, quality requirements, customers requirements, significant aspects, occupational health and safety hazards and risks, and objectives and targets should flow down to all levels and functions of the organization while information and data regarding the performance of the integrated management systems, and progress on achieving objectives and targets should flow back to executive management.

## 3. Integrated Management System Review

Management review is an activity aimed at assessing information on the performance of the integrated management system and therefore, the review commences long before the meeting in order to accomplish several things. This integrated management system review establish the timing and content for the periodic review of the company's integrated quality, environment, and occupational health and safety management system (IMS), as well as overall responsibilities for the IMS system element under review.

## 4. Sustainability Strategy Map

Inspired from linking Sustainability to Corporate Strategy concept from Balanced Scorecard Institute (Rohm and Montgomery, 2011), sustainability strategy-based balanced scorecard is emphasizing in develop continuous sustainable performance measurement start with improve culture that focus on sustainability along with employee engagement. It will be supported by information system infrastructures to increase efficiency and innovation throughout operations. This condition will reduce company cost and increase company's income. Otherwise, in terms of culture, it will improve organization capabilities to partner with company's stakeholder including government, local communities, vendor, even non-governmental organization (NGO). It will influence stakeholder relationship that lead to reduce business risk, positively affect company's cost of capital. The final outcome for this positive loop will result increase income and reduced risk.

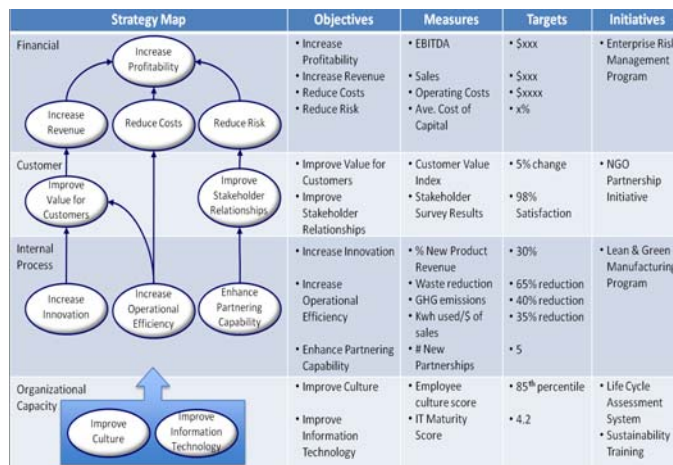


Figure 4. Sustainability Strategy-Based Balanced Scorecard

## 4. Conclusion and Implementation Plan

After performing this research, it can be concluded that corporate sustainability through integrated management system has contributed to optimize the corporate sustainability initiative with key points as follows:

- Increasing reputation of company to stakeholders / interested parties  
All interested parties will regard PT. X Indonesia as an organization which pays serious attention not only to economical side, but also it is responsible to keep its environment and employee's safe & health.
- Increasing number of customers due to company's high reputation.

Minimizing losses caused by customer complaint, pollution, occupational incident and illness, as well as interested parties claim due to natural resource damage.

- Reducing cost

By conducting quality, environmental, and occupational health & safety audit simultaneously, auditor team needs not to visit the same area audited repeatedly.

Table 1. Implementation Plan

Goal	Task	Who	When					Resources	Completed
			Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014		
Integrated Management System Implementation	Establishing objectives and targets for each relevant function and level of the organization consistent with the overall IMS objectives and targets	Respective Department Managers						Q/E/OHS Policy Commitments, significant environmental aspects, significant OHS Risk, Customer Requirements, Voluntary Commitments, Legal Requirements, Stakeholder Views and Interests.	
	Means and methods required achieving the objective (resources, human, material, financial, budgets, etc)	Management Representative						Management System Consultant, Internal and External Auditor.	
	Assignment of specific responsibilities for achieving objects at each relevant function and level of the organization	Executive Management						Approved Objectives, System-Wide Objectives, System-Wide Targets, Function-Specific Objectives, Function-Specific Targets.	
	Time frame to achieve the objective or incremental target dates	Respective Department Managers						Preliminary Q/E/OHS Objectives	
	Identifying the need for new and/or revised operational procedures	Management Representative						Approved Objectives, Operation Review Meetings	
	Developing the required operational procedures	Respective Department Managers						Approved Objectives, Operation Review Meeting Results	
	Identifying specific training needs	HRD Manager						Assignment of specific responsibilities for achieving objects at each relevant function	
	Arrangements to provide the appropriate training	Learning & Development Manager						Employee's training requirements, employee job description, personal qualification requirements.	
	Methodology, frequency, and responsibilities for monitoring, measuring, and reporting progress	Management Representative						Function Management Programs and Objective-Specific Management Programs	

In order to increase corporate sustainability value realization in future research, it is recommended to analyze the contribution of KPI in developing, operating and maintaining the IMS along its lifetime.

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